



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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November 30, 2010

TO: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **FISCAL REVIEW OF THE HOUSE OF BETHESDA - A GROUP HOME
FOSTER CARE CONTRACTOR**

At the request of the Department of Children and Family Services (DCFS), we reviewed the fiscal operations of The House of Bethesda (Bethesda or Agency) from January 1, 2008 through December 31, 2008. Bethesda is licensed to operate one group home (GH) with a resident capacity of six children. Bethesda is located in the Second Supervisorial District.

DCFS and Probation Department contract with Bethesda to care for foster children placed in the Agency's home. DCFS paid Bethesda \$5,092 per child per month, based on a rate determined by the California Department of Social Services, for a total of \$305,563 during 2008.

The issuance of our report to your Board was delayed in part by changes in federal and State regulations regarding possible repayment of questioned costs from fiscal audits. To enable Bethesda to begin taking corrective action immediately, we discussed the findings and recommendations from our review with Agency management and DCFS on May 28, 2009.

Summary of Findings

We identified \$181 in unallowable costs, \$1,058 in unsupported/inadequately supported costs, and \$5,208 in unexpended clothing funds. In addition, DCFS and the Agency

need to work together to resolve potential overpayments. DCFS should recover any valid overpayments.

Bethesda also needs to strengthen its controls over independent contractor payments, payroll/personnel, payroll tax deposits, petty cash, Board minutes, bank reconciliations, and compliance with insurance requirements. Details of our findings are discussed in Attachment I.

We have recommended that DCFS resolve the questioned costs and collect any disallowed amounts. DCFS should also ensure that Bethesda management takes action to address the recommendations in this report and monitor to ensure that the actions result in permanent changes.

As part of our review, we followed up on the 14 recommendations from our May 5, 2006 fiscal review of Bethesda, and noted that the Agency had not implemented four of the recommendations.

Review of Report

We discussed our findings with Bethesda management and DCFS on May 28, 2009, but were unable to issue our final report to your Board due to changes in federal and State regulations. The Agency's response, which is incorporated into DCFS' Fiscal Corrective Action Plan (Attachment II), indicates the Agency's general agreement with our findings and recommendations. The Agency has also agreed to repay the unallowable and unsupported/inadequately supported costs. We thank Bethesda's management and staff for their cooperation during our review.

This audit is not intended to be, and does not constitute, the discovery or identification of an overpayment for purposes of the federal Improper Payments Act, related California State laws, including but not necessarily limited to Welfare and Institutions Code sections 11466.23, 11466.235, 11466.24, etc., nor State regulations intended to implement either the federal Improper Payments Act or related provisions in State law. This audit is intended solely to assist the County Department of Children and Family Services in managing its contractual relationships. Consequently, this report will be forwarded to the County Department of Children and Family Services in order that it might take further action, as it deems appropriate, based on its contents. Such further action may, or may not, include the discovery or identification of an overpayment for purposes of federal or State law.

Please call me if you have any questions, or your staff may contact Jim Schneiderman at (213) 253-0101.

WLW:MMO:JLS:MWM

Attachments

- c: William T Fujioka, Chief Executive Officer
- Patricia S. Ploehn, Director, Department of Children and Family Services
- Donald H. Blevins, Chief Probation Officer
- Cynthia McCoy-Miller, Administrative Deputy, DCFS
- Robert Smith, Executive Director, The House of Bethesda
- Board of Directors, The House of Bethesda
- Cora Dixon, Bureau Chief, Foster Care Audits Bureau, CA Dept of Social Services
- Commission for Children and Families
- Public Information Office
- Audit Committee

The House of Bethesda
Fiscal Review

REVIEW OF EXPENDITURES/REVENUES

We identified \$181 in unallowable costs, \$1,058 in unsupported/inadequately supported costs, and \$5,208 in unexpended clothing funds. In addition, DCFS and Bethesda need to work together to resolve some potential overpayments. Details of these costs/overpayments are discussed below.

Applicable Regulations and Guidelines

Bethesda was required to operate its GH in accordance with the following federal, State and County regulations and guidelines:

- GH Contract, including the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations (Circular A-122)
- California Department of Social Services Manual of Policies and Procedures (CDSS-MPP)
- California Code of Regulations, Title 22 (Title 22)

Unallowable Costs

Bethesda incurred \$181 in unallowable expenditures, consisting of finance charges on insurance payments and late fees on overdue balances on utility bills. Circular A-122 Sections 16 and 23 states that interest payments and late fees are unallowable costs, respectively. We also noted unallowable finance charges and late fees in our May 5, 2006 report on Bethesda.

Unsupported/Inadequately Supported Costs

A-C Handbook Section A.3.2 states that all expenditures shall be supported by original vouchers, invoices, receipts, or other documentation and that unsupported expenditures will be disallowed upon audit. In addition, A-C Handbook Section B.2.3 states that petty cash disbursements must be supported by invoices, store receipts or other external authenticating documents, indicating the items purchased and the employee making the purchases.

We identified \$1,058 in GH expenditures that were either unsupported, or inadequately supported, consisting of \$755 in telephone charges and \$303 in petty cash

expenditures for outings, gasoline and swap meets. The Agency either did not provide receipts, or the receipts were inadequate to substantiate that the expenditures were GH related. We also noted a lack of petty cash documentation in our May 5, 2006 report.

Accounting for Clothing Allowances

GH Contract Section 3.11.2, states that the Agency shall provide a regular monthly clothing allowance to each child. Placed children receive a one-time stipend and a monthly clothing allowance from AFDC-FC funds of at least \$50, beginning no later than 30 days after the children are placed in the home.

Bethesda does not pay all the required clothing allowances. Based on our review of client placements, the Agency should have paid out approximately \$7,181 for clothing allowances during 2008. However, the Agency only provided \$1,972 in clothing receipts, leaving \$5,208 in unspent clothing funds. We determined that none of the children who should have received the clothing allowances are still at Bethesda. We also noted unspent clothing funds in our May 5, 2006 report.

Recommendations

1. DCFS management resolve the \$6,447 (\$181 + \$1,058 + 5,208) in questioned costs and collect any disallowed amounts and/or unexpended clothing funds.

Bethesda management:

2. Ensure that foster care funds are used for allowable expenditures to carry out the purpose and activities of the GH program.
3. Maintain adequate supporting documentation for all Agency expenditures, including itemized invoices and receipts.
4. Track clothing allowances for all children at the Agency and report any unspent clothing funds for children who no longer reside at the Agency to DCFS.

Potential DCFS Overpayments

DCFS' records show some potential overpayments. DCFS and the Agency should work together to resolve and collect any verified overpayments. Bethesda management should also ensure that any future payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.

Recommendations

5. DCFS management work with Bethesda to resolve the potential overpayments and collect any verified overpayments.
6. Bethesda management ensure that any future payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted several contract compliance issues and internal control weaknesses. DCFS should ensure that Bethesda management takes action to address the recommendations in this report. DCFS should monitor to ensure the actions result in permanent changes.

Independent Contractors

A-C Handbook Section A.3.2 states that contracts, time and attendance records, billing rates, purchase orders, invoices or other supporting documentation detailing the nature of services provided be maintained. In addition, A-C Handbook Section A.2.6 requires agencies to report payments to independent contractors to federal and State taxing agencies.

We reviewed 12 independent contractor payments and noted the following:

- Bethesda did not have current agreements for three contractors. In addition, the Agency did not report payments to these contractors to the federal and State governments. For two other contractors, the payments recorded on the Agency's general ledger were more than the amounts reported to the taxing authorities on the 1099 forms. We also noted issues with filing 1099s for contractors in our May 5, 2006 report.
- For one contractor, the agreement stated that the contractor was to be paid on an hourly basis. However, it appeared that the contractor was paid on a monthly basis. For two other contractors, the work performed differed from the contracts.

Recommendations**Bethesda management:**

7. Ensure that the Agency has a contract on file for all contractors.
8. Ensure that payments to independent contractors are consistently and accurately reported to the federal and State taxing agencies.

- 9. Ensure that the Agency compensates their independent contractors according to the contract terms and that the contract terms accurately reflect the services for which they were contracted.**

Payroll Processing Internal Controls

A-C Handbook Section A.3.2 requires Bethesda to maintain time and attendance records signed by the employee and approved in writing by the supervisor. Personnel records shall also be maintained documenting employee pay rates.

We reviewed the personnel files and payroll records of ten employees and noted the following:

- Eight employees had incorrectly calculated salaries, resulting in minor payment variances. For example, one employee was paid for overtime at the regular pay rate, which resulted in underpayment of approximately \$207. The discrepancies ranged from a \$19 overpayment to a \$207 underpayment.
- Three employees' personnel files did not include a copy of the employees' approved salaries. For five other employees, the authorized salary in the personnel file was not current. We also noted the lack of approved salary rates in our May 5, 2006 report of this Agency.
- One employee was paid \$5 more per hour compared to other employees in the same position. There was no documentation in the personnel file to justify the higher pay. According to management, the employee was paid more because their duties exceeded those of a child care worker. Bethesda management indicated that approval for the higher pay was discussed, but was not documented in writing.

Recommendations

Bethesda management:

- 10. Ensure that the Agency pays their employees correctly.**
- 11. Ensure that employee current pay rates and justifications for pay raises are documented in the employee's personnel file.**

Federal Payroll Tax Deposit Receipts

A-C Handbook Section A.2.6 requires the Agency to comply with all applicable federal and State requirements for withholding payroll taxes (FIT, FICA, FUTA, SIT, SIU, etc.), reporting, filing (941, DE-7, W-2, W-4 and 1099s), and all applicable tax deposits.

We obtained a summary of payroll tax payments for the third quarter of 2008 (July, August and September), and noted that Bethesda only had receipts for \$5,119 of the

\$9,840 that should have been paid to the Internal Revenue Service (IRS) for the third quarter. We were unable to confirm that the Agency had paid the remaining \$4,721 to the IRS.

Recommendation

- 12. Bethesda management provide DCFS with confirmation that all tax payments for the review period were made timely.**

Petty Cash Not on an Imprest Basis

A-C Handbook Section B.2.3 states that a petty cash fund up to \$500 may be maintained for payment of small incidental expenses incurred by the Agency (e.g., postage due, small purchases of office supply items, etc.). The petty cash fund is supposed to be maintained at a set amount (imprest basis) and written approval must be obtained from DCFS to establish a petty cash fund greater than \$500. In addition, A-C Handbook Section B.2.1 also requires that checks not be payable to "cash".

We noted that Bethesda's petty cash fund is not maintained on an imprest basis. The petty cash reimbursements ranged from \$500 to \$1,250 a month. In addition, we noted that replenishment checks were made payable to cash, not the petty cash custodian.

Recommendations

Bethesda management:

- 13. Maintain the fund on an imprest basis.**
- 14. Limit the petty cash fund to \$500 or obtain written approval by County for larger fund.**
- 15. Make petty cash replenishment checks payable to an assigned petty cash custodian, not cash.**

Board Minutes

California Corporations Code Section 6320 states that Board minutes must present an accurate record of what was done; such as the time and place of the meeting, who was present, what was discussed, results of all votes taken and what decisions were made and why.

Bethesda's board minutes do not record who was present at each quarterly meeting. Therefore, we cannot determine if a quorum was present.

Recommendation

- 16. Bethesda Board of Directors ensure that minutes of their meetings include a record of who was present.**

Bank Reconciliation Procedures

A-C Handbook Section B.1.4 requires that bank reconciliations be reviewed by management for appropriateness and accuracy. The bank reconciliations should be signed and dated by both the preparer and the reviewer.

We reviewed the August 2008 reconciliations for both Agency bank accounts and noted that neither was signed or dated by management. Therefore, we could not determine if management reviewed the reconciliations and whether the reviews were timely.

Recommendation

- 17. Bethesda management ensure that the Agency's bank account reconciliations are reviewed, and signed and dated by the reviewer.**

Insurance Requirements

GH Contract Section 5.1.1.3 states that the agency's insurance must contain the express condition that the County is to be given written notice by mail at least 30 days in advance of cancellation for all policies.

The Agency's workers' compensation insurance provides the County ten days instead of 30 days required by the contract.

Recommendation

- 18. Bethesda management ensure the Agency complies with the contract insurance requirements.**



PATRICIA S. PLOEHN, LCSW
Director

**County of Los Angeles
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

425 Shatto Place, Los Angeles, California 90020
(213) 351-5602

September 14, 2010

Robert Smith, Executive Director
The House of Bethesda
P.O. Box 5363
Inglewood, CA 90310

Board of Supervisors
GLORIA MOLINA
First District
MARK RIDLEY-THOMAS
Second District
ZEV YAROSLAVSKY
Third District
DON KNABE
Fourth District
MICHAEL D. ANTONOVICH
Fifth District

Dear Mr. Smith:

**AUDITOR-CONTROLLER'S FISCAL AUDIT REPORT ON THE HOUSE OF BETHESDA - A
GROUP HOME FOSTER CARE CONTRACTOR**

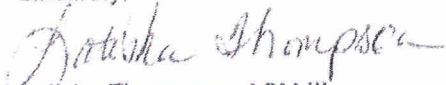
We have reviewed your fiscal corrective action plan (FCAP) in response to the Auditor Controller's fiscal audit report for the period of January 1, 2008 through December 31, 2008. The FCAP fully addresses 16 recommendations (see Attachment III). In addition, the one recommendation directed to DCFS was fully addressed.

Please contact the Los Angeles County Treasurer and Tax Collector Department by September 21, 2010 to schedule a date and time to sign a repayment agreement for the amount of **\$6,447 (\$181 + \$1,058 + \$5,208)**.

Kathy Gloster, Operations Chief
Los Angeles County Treasurer and Tax Collector
Revenue and Enforcement
225 N. Hill Street Room 122
Los Angeles, CA 90012
(213) 893-7968
kgloster@ttc.lacounty.gov

The Department requires that you identify the source of the funds from which payment will be made. If you have any questions, please contact Ali Gomaa-Mersal of my staff at (213) 351-3209.

Sincerely,


Latisha Thompson, ASM III
Fiscal Monitoring and Special Payments

Attachments

- c: Mike McWatters, Chief Audit Division (via electronic mail only)
- Russell Lingo, Principal Accountant-Auditor (via electronic mail only)
- Kathy Gloster, Operations Chief (via electronic mail only)

"To Enrich Lives Through Effective and Caring Service"

**FISCAL REVIEW OF
THE HOUSE OF BETHESDA - A GROUP HOME FOSTER CARE
CONTRACTOR**

Note: Department of Children and Family Services (DCFS) will only review documentation not previously provided to the Auditor-Controller.

Summary of Recommendations

Based on the FCAP dated 9/3/10, submitted by The House of Bethesda, status of each recommendation is summarized as follows:

- 16 Recommendations (1-16) were fully addressed.
- 1 Recommendation (1) directed to the Department were addressed.

Recommendation Status

1. **DCFS management resolves the \$6,447 (\$181 + \$1,058 + \$5,208) in questioned costs and collect any disallowed amounts and/or unexpended clothing funds.**

Agency Proposed FCAP: House of Bethesda (HOB) agrees to repay and resolve the total amount of \$6,447.00. HOB would request a payment arrangement to pay the amount in full.

DCFS Response: DCFS accepts the agency's response. Please contact the Los Angeles County Department of Treasurer and Tax Collector, as soon as possible to schedule an appointment to sign a repayment agreement for the amount of \$6,447. Please contact:

Kathy Gloster
Operations Chief
Los Angeles County Treasurer and Tax Collector
Revenue and Enforcement
225 N. Hill Street Room 122
Los Angeles, CA 90012
(213) 893-7968
kgloster@ttc.lacounty.gov

2. **Bethesda management ensures that foster care funds are used for allowable expenditures to carry out the purpose and activities of the GH program.**

Agency Proposed FCAP: HOB will ensure that all foster care funds will be use only for allowable expenditures to carry out the purpose and activities of the GH program.

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

3. **Bethesda management maintain adequate supporting documentation for all Agency expenditures, including itemized invoices and receipts.**

Agency Proposed FCAP: HOB will ensure to maintain original invoices and receipts to support all Agencies' expenditures.

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures regarding the Agency's document maintenance system to ensure compliance with the recommendations.

4. **Bethesda management track clothing allowances for all children at the Agency and report any unspent clothing funds for children who no longer reside at the Agency to DCFS.**

Agency Proposed FCAP: HOB will develop and implement a tracking system with the name of the child, placement date, discharge date and amount paid for clothing allowance. In the event that there is balance on the clothing fund HOB will report it to DCFS.

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures regarding the Agency's new tracking system to ensure compliance with the recommendations.

5. **Bethesda management ensures that the Agency has a contract on file for all contractors.**

Agency Proposed FCAP: HOB will ensure that all independent contractors will have a sign contract on file from the moment they are hired by HOB.

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

6. **Bethesda management ensures that payments to independent contractors are consistently and accurately reported to the federal and State taxing agencies.**

Agency Proposed FCAP: HOB will ensure that all independent contractors are issue a 1099 tax form and the end of the year reporting all payments made by the agency for the year.

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

7. **Bethesda management ensures that the Agency compensates their independent contractors according to the contract terms and that the contract terms accurately reflect the services for which they were contracted.**

Agency Proposed FCAP: HOB will compensate all their independent contractors according to the contract agreement and stipulation between the contractor and the agency.

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

8. **Bethesda management ensures that the Agency pays their employees correctly.**

Agency Proposed FCAP: HOB will ensure that all employees are paid correctly. All employees' payroll payments will be cross check with the time card, approved salary and payroll journals before the check is issue.

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

9. **Bethesda management ensures that employee current pay rates and justifications for pay raises are documented in the employee's personnel file.**

Agency Proposed FCAP: HOB will establish a salary approval sheet that will be place on each employee file detailing the salary amount, date approved, and reason for the salary increase or decrease.

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures regarding the Agency's document maintenance and filing system to ensure compliance with the recommendations.

10. **Bethesda management provides DCFS with confirmation that all tax payments for the review period were made timely.**

Agency Proposed FCAP: HOB will provide documentation to DCFS that the tax were paid on time for the review period.

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

11. **Bethesda management maintains the fund on an imprest basis.**

Agency Proposed FCAP: HOB will maintain the petty cash fund on an imprest basis.

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

12. **Bethesda management limits the petty cash fund to \$500 or obtains written approval by County for larger fund.**

Agency Proposed FCAP: HOB will limit the petty cash fund to \$500.00 per occurrence and will follow corrective action #11.

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

13. **Bethesda management make petty cash replenishment checks payable to an assigned petty cash custodian, not cash.**

Agency Proposed FCAP: HOB will assign a petty cash custodian and all petty cash replenishment checks will be payable to the designated person only.

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation.

14. **Bethesda Board of Directors ensures that minutes of their meetings include a record of who was present.**

Agency Proposed FCAP: HOB will ensure that all board minutes from all board meetings will include the name of all the board members who were present.

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation and Last Three (3) most recent board meeting minutes.

15. **Bethesda management ensures that the Agency's bank account reconciliations are reviewed, and signed and dated by the reviewer.**

Agency Proposed FCAP: HOB will ensure that all bank account reconciliations are review, dated and sign by the reviewer and preparer.

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation and copies of the Last two (2) month's bank statements & respective reconciliation's.

16. **Bethesda management ensures the Agency complies with the Contract insurance requirements.**

Agency Proposed FCAP: HOB will ensure that it will comply with all Contract insurance requirements.

DCFS Response: DCFS accepts the agency's response. Please submit Board-approved policies/procedures that ensure compliance with the recommendation and copy of most current Certificates of Insurance.